

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

**HELD ON
Wednesday, April 5, 2006
5:30 p.m., MST**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Lawrence Trachtenberg, Chairperson of the IC, called the meeting to order at 5:33 p.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Lawrence Trachtenberg, Chairperson
 Mr. Karl Polen
 Mr. Christopher Harris
 Ms. Anne Mariucci

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding the Potential Reallocation of International Equity Assets from Core Passive (BGI) to a Different Growth Active Investment Manager(s)

Mr. Gary R. Dokes, ASRS Chief Investment Officer, gave a presentation outlining that, during the mid-2005 Non-U.S. Equity manager search, the Search Committee identified New Star as a potential ASRS manager. However, due to rapid asset growth, the committee decided to postpone funding and re-evaluate the firm during the first quarter of 2006. The potential funding of approximately \$250 million is currently invested with BGI. New Star significantly underperformed the MSCI All Country World ex-U.S. index during the third and fourth quarters of 2005.

In addition, New Star appears to continue to have infrastructure issues regarding rapid asset growth. Because of the Investment Management Division's (IMD) review of New Star, a recent research report by R.V. Kuhns, and discussions with another investment consultant, IMD lacks confidence in New Star's ability to add value in the future. Mr. Dan Kapanak, ASRS Manager of Research and Development, expanded on Mr. Dokes' comments. The IMD recommended to

the Committee that International Equity Assets be reallocated from Core Passive (BGI) to MFS (core with growth bias) and Hansberger (growth).

A discussion followed about the manager's past performance, the investment style of managers, effective asset allocation, and asset growth.

Motion: Mr. Lawrence Trachtenberg moved that the IC recommend to the ASRS Board that the Board allocate pro-rata approximately \$250 million to MFS and Hansberger from the BGI Core Passive portfolio.

Mr. Karl Polen seconded the motion.

By a vote of 4 in favor, 0 opposed, and 0 abstentions, the motion was passed.

3. Presentation, Discussion, and Appropriate Action Regarding Future IC Agenda Items to Include but not Limited to the Following: Total Fund Attribution, Performance Evaluation Framework, Research Papers, and Asset Allocation Study

Mr. Dokes gave an overview on the future IC Agenda item, Total Fund Attribution, stating that, in response to numerous Board and IC questions regarding total fund performance, the IMD will review the methodology used in preparing the Total Fund Performance Attribution report and provide insights on how to interpret the results. This will be addressed in greater detail in a future IC meeting.

On the Performance Evaluation Framework, he stated that IMD would like to have a comprehensive performance evaluation framework that addresses appropriate performance benchmarks (i.e. absolute, relative, peer comparison) at the total fund, asset class, and manager levels, as well as a consistent approach for hiring, monitoring, and firing investment managers.

Regarding Research Papers, he noted that the following papers shed light on the performance patterns of institutional investment managers and provide insight into pension funds' decision-making process related to manager hiring and firing:

- "Persistence of Manager Performance." Mercer Investment Consulting, February 2006 (draft).
- "The Selection and Termination of Investment Management Firms by Plan Sponsors." Goyal and Wahal, May 2005.
- "Performance Persistence in Institutional Investment Management." Busse, Goyal, Wahal, November 2005.

Mr. Dokes stated that the IMD will broaden this list of research papers.

With regards to the Asset Allocation Study, Mr. Dokes provided an update on the progress in retaining an investment consultant to perform an asset allocation study for the ASRS and reviewed a preliminary timeline for the study. An RFP has been issued and responses have been submitted to the ASRS. The screening process to select a consultant will take place over the next

few weeks. The ASRS will move forward with the asset allocation study so as to have a rigorous analysis. Value added strategies, long-short strategies, and real estate will be considered.

4. Call to the Public

None.

The meeting adjourned at 6:19 PM.

Respectfully submitted,

Lisa Hanneman, Secretary

Date

Gary Dokes, Chief Investment Officer

Date